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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Dickinson/Iron County FIA for the period October 1, 2001 through December 7, 2002. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Dickinson/Iron County FIA had 36 full time equated positions (FTE's) at the time of our review. Dickinson/Iron County FIA provided assistance to an average 1,973 recipients per month during FY 2001, with total assistance payments of \$2,333,911 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Dickinson/Iron County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing

Cash Disbursement

IRS Information Security

Safe and Controlled Documents

Modified Accrual Balance Sheet

Procurement Card Review

State Car Usage

CIS/ASSIST LASR Controls

Cash Receipts

General Ledger

State Emergency Relief (SER)

Payroll and Timekeeping

Direct Support Services

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Dickinson/Iron County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

## **LOCAL OFFICE RESPONSE**

The management of Dickinson/Iron County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated January 15, 2003 that they are in general agreement with the report.

## **FINDINGS AND RECOMMENDATIONS**

### **DICKINSON COUNTY**

#### **Cash Receipts**

##### **Mail Opening**

1. Dickinson County FIA had only one person opening the mail each day, then rotating to a 2<sup>nd</sup> clerk the next day. Accounting Manual Item 430 requires that two people work together to open the mail. Having two people opening the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that Dickinson County FIA have two people work together to open the mail.

### Daily Mail Record of Cash Receipts

2. Dickinson County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the County used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that a FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that Dickinson County FIA record all negotiables for deposit on the FIA-4729.

### **Cash Disbursements**

#### Separation of Duties

3. Dickinson County FIA did not properly separate the cash disbursements duties. One person signed the checks, had access to the blank checks, prepared the Monthly Controlled Document Inventory and Reconciliation (FIA-4351), prepared the bank reconciliation, prepared the Sign-O-Meter Log (FIA-4711), and was involved in the cash disbursements process. Accounting Manual Items 410 and 410.1, and the Primary Internal Control Criteria for District/Local Offices, state that for internal control purposes, the person responsible for signing the checks should be an employee independent of the processing function and not have control of the blank check/warrant inventory. ACM Item 410.1 states that the person who operates the check signing machine should not be the one to record the meter reading on the FIA-4711.

WE RECOMMEND that Dickinson County FIA have an independent person record the meter reading on the FIA-4711, two people perform the monthly controlled

document inventory reconciliation, and another person prepare the bank reconciliation.

#### Signature Card at the Bank

4. Dickinson County FIA had the fiscal person's name on the signature card at the bank. Accounting Manual Item 410.1 states that if the check signing machine malfunctions, back up procedures, including two or three authorized signatures on file with the bank, should be in place. The person signing the checks should not have access to the supply or be involved in the disbursements process.

WE RECOMMEND that Dickinson County FIA have the fiscal person's name removed from the signature card at the bank.

#### **General Ledger**

##### Approval of Journal Vouchers

5. Dickinson County FIA did not have supervisory approval signatures on the journal vouchers we reviewed in the month of October 2002. Accounting Manual Item 450 requires that the preparer's supervisor, or another person designated by the local office director, approve all journal vouchers. Requiring approval helps reduce the risk of unauthorized transactions being processed.

WE RECOMMEND that Dickinson County FIA have the preparer's supervisor or another person designated by the director, approve all journal vouchers.

##### Modified Accrual Basis Balance Sheet

6. Dickinson County FIA prepared the Modified Accrual Basis Balance Sheet each month, as required by Accounting Manual Item 402.3. However the Accounts

Receivable due from State had negative balances. Accurate preparation of the Modified Accrual Basis Balance Sheet is necessary to provide an accurate presentation of the local office's financial position.

WE RECOMMEND that Dickinson County FIA correct the balances so the Accounts Receivable Due from State accounts accurately reflect the amount due from the state.

### **IRS Security**

#### **IRS Data Control Sheet**

7. Dickinson County FIA did not use the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) to record Unearned Income Notices (FIA-4487A) received at the office, as required by PAM Item 800. Instead the notices were being recorded on a steno pad kept by the Designated Staff Person. Completion of the FIA-4488 is necessary to document that the local office is maintaining the confidentiality of information received from the IRS.

WE RECOMMEND that Dickinson County FIA record all FIA-4487A's received on the FIA-4488.

NOTE: Corrective action was taken while the auditor was on-site.

### **SER Payments**

#### **Supporting Documentation for Payments**

8. Dickinson County FIA did not obtain the FIA-849 and original bill for an on line FIA-849 payment for 1 of the 18 payments reviewed. Instead, the worker submitted a screen dump with the amount written on it. Accounting Manual Item 404 requires



an invoice or other supporting documentation be attached to support the payments made. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that the Dickinson County FIA Accounting Office maintain the FIA-849 and original bill for all FIA-849 payments.

### **Safe and Controlled Documents**

#### **Controlled Document Reconciliation**

9. Dickinson County FIA did not properly control the gift cards on hand. For two of the 17 types of gift cards the physical inventory did not reconcile to the controlled document log. Also, Dickinson County FIA had not prepared the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) for the gift cards since May 2002. Accounting Manual Item 403 requires that the local office maintain accurate and up to date logs. Maintaining an accurate inventory of gift certificates helps to ensure that all gift cards are properly accounted for.

WE RECOMMEND that Dickinson County FIA reconcile the inventory of gift cards and prepare the Monthly Controlled Document Inventory and Reconciliation.

### **Payroll and Timekeeping**

#### **Storage of HR-332A Report**

10. At Dickinson County FIA, the timekeeper kept the HR-332A report after the director signed it. The Primary Internal Control Criteria for Local/District Office Operations recommends that an employee other than the timekeeper maintain the certified copies of the HR-332A Report until the reconciliation with the Turnaround

HR-332A is completed, so that any unauthorized changes the timekeeper made after the HR-332A is certified would be detected.

WE RECOMMEND that Dickinson County FIA have an employee other than the timekeeper maintain the certified copies of the HR-332A report until the reconciliation is completed.

#### Reconciliation of HR-332A to the Turnaround HR-332A

11. Dickinson County FIA did not reconcile the turnaround HR-332A report to the original HR-332A report a week after the time was submitted. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper reconcile the turnaround HR-332A report to attest to the accuracy of the payroll.

WE RECOMMEND that Dickinson County FIA have someone other than the timekeeper reconcile the original HR-332A report to the turnaround HR-332A report to verify the accuracy of the payroll.

#### CIS/ASSIST/LASR Controls

##### CIS Security Agreements

12. Dickinson County FIA did not have accurate up-to-date CIS Security Agreements (FIA-3974A) on file for 12 out of the 16 employees who access the Client Information System (CIS) as required by L-Letter 97-063. One worker completed an obsolete version of the FIA-3974A, three workers had a blank status field on their FIA-3974A, and eight had status codes on the PF-011 report that were different from the status code indicated on their FIA-3974A. An accurately completed Security

Agreement is necessary to document that the employee understands the responsibilities associated with his/her level of access.

WE RECOMMEND that Dickinson County FIA ensure that accurate, up-to-date security agreements are on file for all employees who access CIS.

#### ASSIST Security Agreements

13. Dickinson County FIA did not have accurate up-to-date ASSIST Security Agreements (FIA-3974A) on file for 19 out of the 21 employees who access the ASSIST System as required by L-Letter L-97-156. An accurately completed Security Agreement is necessary to document that the employee understands the responsibilities associated with the ASSIST access.

WE RECOMMEND that Dickinson County FIA ensure that accurate, up-to-date security agreements are on file for all employees who access ASSIST.

#### Security Officers Log Report (PD-180), (VB9-173) and (LR-853)

14. Dickinson County FIA did not reconcile the CIMS Security Officer's Log Report (PD-180) to the Security Agreements (FIA-3974A's), the ASSIST Security Officers Log Report (VB9-173) to the ASSIST Enrollment Profiles, or the LASR Security Officers Log Report (LR-853) to the LASR Security Access Requests, as recommended by the Primary Internal Control Criteria for Local/District Office Operations. Reconciliation of these reports ensures that all changes made are accurate and approved by supervision.

WE RECOMMEND that Dickinson County FIA reconcile the PD-180 and VB9-173, and LR-853 reports to revised Security Agreements, Enrollment Profiles and LASR Security Access Requests.

#### LASR Access Security Agreements

15. Dickinson County FIA could not locate the LASR Security Access Request (LR-84) for those employees who had access to LASR as required by L-Letter –02-088. An accurately completed Security Agreement is necessary to document that the employee understands the responsibilities associated with the LASR access.

WE RECOMMEND that Dickinson County FIA ensure that accurate, up-to-date security agreements are on file for all employees who access LASR.

#### MA-010 Reconciliation - Openings

16. Dickinson County FIA did not reconcile a sample of new case openings listed on the Transaction Control Report (MA-010) to the casefile documentation, as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A sample reconciliation of openings provides assurance that cases were opened by their assigned workers.

WE RECOMMEND that Dickinson County FIA reconcile a sample of case openings on the MA-010 Report to the appropriate documentation in the case file.

#### MA-010 Reconciliation - Supplemental Payments

17. Dickinson County FIA did not reconcile 100% of the Supplemental Payments listed on the Transaction Control Listing (MA-010) or the SP-270 Report to the Supplemental Payment Authorization and other supporting documentation, as

recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. The local office reconciled only the ampersand transactions. Reconciling 100% of the Supplemental Payments helps to ensure that the payments are accurate and appropriate.

WE RECOMMEND that Dickinson County FIA reconcile 100% of the Supplemental Payments on the MA-010 to the FIA-13's and other supporting documentation.

### **Direct Support Services**

#### **Documentation for Vehicle Purchase**

18. In two cases where Dickinson County FIA purchased vehicles for clients the original invoice was in the case file and not submitted to fiscal when payment was requested, as required by Program Eligibility Manual (PEM) Item 232, page 5. Also in two out of 5 cases the worker did not document that the car was needed for employment, and in one case the Direct Support Services packet did not contain evidence that the customer had a valid driver's license, as required by PEM Item 232, pages 11.

WE RECOMMEND Dickinson County FIA submit original invoices and document that vehicles are needed for employment and that the customer has a valid driver's license when authorizing vehicle purchases.

#### **Vehicle Repairs and Insurance**

19. For two of the three car repair payments we reviewed, Dickinson County FIA case files did not include documentation that the client owned the car and it was insured. Also in two cases the local office paid for full coverage insurance for vehicles that

were over 8 years old. These cases did not contain documentation that full coverage insurance for six months was necessary for the client to obtain or retain employment. Insurance for one of the vehicles was \$1,388 for six months. L-Letter L-01-100 states that DSS funding is to be used to remove barriers and facilitate employment.

WE RECOMMEND Dickinson County FIA obtain documentation of vehicle ownership and insurance for customer car repairs and pay only for car insurance necessary for the client to obtain or retain employment.

#### DSS Funds Used for Rent, Gas and Electric

20. Dickinson County FIA used DSS funds to pay for back rent, gas and electric bills. These are not allowable expenses through the DSS program. These expenses should have been paid with SER or ES funds. PEM Item 232, page 14, states that DSS funds cannot be used for services that would be available to the person under another FIA program if the family met all eligibility criteria for that program.

WE RECOMMEND that Dickinson County FIA use DSS funds only for expenses that are allowable per PEM Item 232 and relevant L-Letters.

#### Purchase of Gift Cards

21. Dickinson County FIA purchased a large quantity of several different types of gift cards with DSS funds. These gift cards were to be used to assist clients with employment searches, clothing and gas. However, some of the gift cards are expired or declined in value because they were not used on a timely basis.

WE RECOMMEND that Dickinson County FIA purchase gift cards in small enough quantities to be used on a timely basis.

### **Procurement Card Usage**

No findings in this area

### **State Car Usage**

No findings in this area

### **Client Processing**

No findings in this area

## **IRON COUNTY**

### **Cash Receipts**

#### **Mail Opening**

22. Iron County FIA had two people open the mail independently. Accounting Manual Item 430 requires that two people work together to open the mail. Having two people opening the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that Iron County FIA have two people work together to open the mail.

#### **Daily Mail Record of Cash Receipts**

23. Iron County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the staff recorded the negotiable on a field receipt, and then forwarded the negotiable with the field receipt to Dickinson

County for deposit. Accounting Manual Item 431 requires that checks received through the mail be logged on the FIA-4729, and negotiables received over the counter be recorded on a field receipt before being forwarded to Dickinson County for Official Cashier's Receipt preparation and deposit.

WE RECOMMEND that Iron County FIA record all negotiables received through the mail for deposit on the FIA-4729, and prepare a field receipt for all negotiables received over the counter.

#### Mail Pick Up

24. Iron County FIA had one person pick up the mail at the post office in an unlocked container. The Primary Internal Control Criteria for FIA Local/District Office Operations recommends that either two people pick up the mail from the post office or a locked mail bag be used. Having two people pick up the mail or using a locked mail bag helps to ensure that cash or negotiable instruments received in the mail are not lost or stolen before being recorded on the local office records.

WE RECOMMEND that Iron County FIA either have two people pick up the mail at the post office or use a locked mail bag.

#### **SER Payments**

##### FIA-849 Follow Up Procedures

25. Iron County FIA did not have a follow up procedure in place for open items on the ES-440 Report. FIA-849's and supporting documentation are to be obtained to reconcile the items on the FIA-440 report, as required by Accounting Manual Item 404. However, we did find that the open items on the Iron County ES-440 report were for FIA-849 payments that were paid locally in Dickinson County. We were



able to locate a copy of the FIA-849 and attached bill at Dickinson County FIA for all of these payments..

WE RECOMMEND that Iron County FIA implement a procedure to follow up on open items on the ES-440 Report to ensure that all payments made were accurate and appropriate.

### **Payroll and Timekeeping**

#### **Reconciliation of HR-332A to the Turnaround HR-332A**

26. Iron County FIA did not reconcile the turnaround HR-332A report to the original HR-332A report a week after the time was submitted. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper reconcile the turnaround HR-332A report to attest to the accuracy of the payroll.

WE RECOMMEND that Dickinson County FIA have someone other than the timekeeper reconcile the original HR-332A report to the turnaround HR-332A report to verify the accuracy of the payroll.

#### **Reconciliation of HR-332A to FIA-4299**

27. Iron County FIA did not have an independent person reconcile the HR-332A to the Time and Attendance Reports (FIA-4299) before the time was certified. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper reconcile the HR-332A report to the FIA-4299's to attest to the accuracy of the payroll.

WE RECOMMEND that Iron County FIA have someone other than the timekeeper reconcile the HR-332A report to the Time and Attendance Reports (FIA-4299).

Storage of HR-332A Report

28. At Iron County FIA, the timekeeper kept the HR-332A report after the director signed it. The Primary Internal Control Criteria for Local/District Office Operations recommends that an employee other than the timekeeper maintain the certified copies of the HR-332A Report until the reconciliation with the Turnaround HR-332A is completed, so that any unauthorized changes the timekeeper made after the HR-332A is certified would be detected.

WE RECOMMEND that Iron County FIA have an employee other than the timekeeper maintain the certified copies of the HR-332A report until the reconciliation is completed.

Certification of Time Before Certifier Approves

29. Iron County FIA had the timekeeper certify the time before the director signed as certifier. The Primary Internal Control Criteria for Local/District Office Operations recommends the certifier approve the time before the timekeeper pushes the certify button to release the time.

WE RECOMMEND that Iron County FIA have the certifier approve the time before it is released to DCDS.

## **CIS/ASSIST/LASR Security**

### **CIS Security Agreements**

30. Iron County FIA did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for all employees who access CIS. Eight employees left the status field blank on their FIA-3974A, and for 2 other employees the status indicated on the FIA-3974A was not in agreement with the status per the PF-011 report. Accurate, up-to-date Security Agreements are required by L-Letter 97-063, and are necessary to provide documentation that the worker understands the security requirements for accessing information, and that the supervisor approved the access given to the worker.

WE RECOMMEND that Iron County FIA ensure that they have accurate, up-to-date CIS Security Agreements on file for all employees who access CIS.

### **ASSIST Enrollment Profiles and Security Agreements**

31. Two employees at Iron County FIA did not have accurate job types on the ASSIST Enrollment Profiles (FIA-3720), as required by L-Letter 97-156. These employees had job types on the VB9-554 report that were not included on the FIA-3720. Accurate, up-to-date Security Agreements provide documentation that workers understand the access they have on ASSIST and the responsibility associated with that access.

WE RECOMMEND that Iron County FIA ensure that accurate, up-to-date Enrollment Profiles and Security Agreements are on file for all employees who have access to ASSIST.

#### MA-010 Reconciliation - Openings

32. Iron County FIA did not reconcile a sample of new case openings listed on the Transaction Control Report (MA-010) to the casefile documentation as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A sample reconciliation of openings provides assurance that cases are opened by their assigned worker.

WE RECOMMEND that Iron County FIA reconcile a sample of case openings on the MA-010 Report to the appropriate documentation in the case file.

#### MA-010 Reconciliation - Supplemental Payments

33. Iron County FIA did not reconcile the Supplemental Payments listed on the Transaction Control Listing (MA-010) or SP-270 Report to the Supplemental Payment Authorization and other supporting documentation, as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. The local office only reconciled ampersand transactions. Reconciling 100% of the Supplemental Payments helps to ensure that the payments are accurate and appropriate.

WE RECOMMEND that Iron County FIA reconcile 100% of the Supplemental Payments on the MA-010 or SP-270 Report to the FIA-13's and other supporting documentation.